



RESERVES AND PROVISIONS POLICY (updated Sept 2018)

Purpose

1. This policy sets out how the Police and Crime Commissioner (PCC), in association with the Chief Constable (CC), will determine and review the level of usable and unusable Reserves and Provisions. This version provides further information in line with recent Home Office guidelines.
2. The PCC is required to maintain adequate financial reserves to meet the needs of the organisation. The PCC's Chief Financial Officer (here on known as the Treasurer) has a legal duty to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent proper stewardship of public funds.
3. The optimisation of reserves is an important part of medium term planning. Reserves are a potential source of funding for pump priming initiatives and also can cover the consequences of risks which may materialise. The Treasurer has to take account of the strategic, operational and financial risks facing Wiltshire Police in assessing the adequacy of reserves when setting the budget.
4. Reserves may either be earmarked for particular purposes or held as a general sum as a matter of prudence to cover unforeseen expenditure. Reserves are defined by CIPFA as:

“Amounts set aside for purposes falling outside the definition of provisions should be considered as reserves, and transfers to and from them should be distinguished from service expenditure disclosed in the Statement of Accounts. Expenditure should not be charged direct to any reserve. For each reserve established, the purpose, usage and the basis of transactions should be clearly identified. Reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for purposes such as general contingencies and cash flow management.”

5. This policy will take into account the latest guidance and regulation on the use and management of reserves and balances. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom known as 'The Code', states that, for each reserve established, the purpose, nature and basis of transactions should be identified. The policy will also take into account comments from central government surrounding improving transparency surrounding reserves.
6. CIPFA's Prudential Code requires Chief Financial Officers in PCC's to have full regard to affordability when making recommendations about the local authority's future capital programme. The requirement for three year revenue forecasts across local authorities, coupled with three year grant settlements ensures there is a focus on the levels and application of local balances and reserves.

Managing Reserves – Principles

7. Reserves held are either usable or unusable.
8. When reviewing their medium term financial plans and preparing their annual budgets PCC's should consider the establishment and maintenance of the General Reserve, this assists in providing;
 - ❖ a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
 - ❖ a contingency to cushion the impact of unexpected events or emergencies;
9. Other reserves classified as 'usable' exist for specific 'earmarked' purposes.
10. Unusable reserves may also be held. These arise out of the interaction of legislation and proper accounting practice. These 'unusable' reserves are not resource-backed and cannot be used for any other purpose.
11. Transfers to and from reserves will be made in accordance with financial regulations.
12. The Treasurer will comment on the adequacy and use of Reserves as part of the annual budget setting process.

Types of Reserves

13. In addition to the PCC's **General Reserve** and the Chief Constable's **Operational Reserve** Wiltshire Police will hold usable reserves for the following purposes:
 - **General Contingency** - reserves required to meet other expenditure needs held in accordance with sound principals of good financial management. This will include specific reserves held for partnership purposes which may include funding provided by partners to help achieve a specific purpose.
 - **Projects and Programmes** - reserves held to fund investments in programmes in line with the Police and Crime Plan. This will include the Capital Development Reserve which is critical in the funding of the on-going capital plan. These are all required during the life of the MTFs. This will include specific reserves held for partnership purposes which may include funding provided by partners to help achieve a specific purpose.
14. Unusable reserves, which are not resource-backed and cannot be used for any other purpose, are described below:
 - **Asset Adjustment** - reserves to account for the losses or gains on assets through revaluation or timing differences

- **Pensions** - carries the future liability for post employment benefits in accordance with statutory provisions.
- **Statutory adjustments** - reserves to adjust between costs recognised in the general fund balance and statutory arrangements.

15. For each reserve there should be a clear protocol setting out the reason for/purpose of the reserve. When establishing reserves PCC's need to ensure that they are complying with the CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom known as 'The Code' and in particular the need to distinguish between reserves and provisions. Annex A identifies the reason for each reserve, how the level of the reserve has been set and whether there is a contractual obligation. Annex B shows the current level of funding set aside for each reserve and the plan for use over 3 years.

Building Reserves

16. The General Reserve will change each year with the transfer of year end surpluses or deficits to this reserve. This reserve will be set in line with the Treasurers view which will take into account issues such as the current and future financial climate. The Treasurers current view is that the target for this reserve should equate to 2.5% of the budget. It is expected that variations in year will be dealt with by a transfer to or from an investment reserve. This transfer will be recommended at year end as part of the closure of accounts process and will need to be approved by the PCC.

17. Earmarked reserves and other specific reserves will be established or removed on a 'needs basis', in line with planned or anticipated requirements set out in the Police and Crime Plan, Medium Term Financial Strategy and Financial Regulations.

18. The current financial landscape demands that significant savings need to be made in order to deliver a sustainable budget. It is prudent to have reserve levels to provide a buffer or a safeguard during uncertain times. It is also important to maintain sufficient reserves to provide additional capacity for discretionary use to smooth the introduction of savings. For redundancy and other small change costs the Restructuring Reserve will be used by the Chief Constable.

19. In line with the PCC's Police and Crime Plan a Community Safety Innovation Reserve has been introduced. Use of this fund will be determined by the PCC with decisions documented at the internal Corporate Management Board.

Quantifying the Reserves Requirement

20. The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

21. This means that the minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the CC and CC's Chief

Financial Officer to make a reasoned judgement on the appropriate level of its reserves.

22. The Treasurer, with input from the CC's Chief Financial Officer, will adopt a risk based approach in determining the appropriate level of reserves and balances in order to support strategic priorities over the short, medium and long term and the need to maintain financial sustainability.
23. The Local Government Act 2003 requires the Treasurer to report on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides as part of the annual budget setting process.
24. For the purposes of this Policy, it is the responsibility of the Treasurer, to advise the PCC on the type and level of Reserves to be held.
25. The Treasurer should consider most if not all of the factors shown in the table below when determining the level of Reserves as part of budget setting.

Budget assumptions	Financial standing and Management
The outlook for inflation and interest rates.	The overall financial standing of Wiltshire Police (level of borrowing, debt, etc.)
The availability of other funds to deal with major contingencies and the adequacy of provisions.	Wiltshire Police's track record in budget and financial management including the robustness of its medium-term plans
Estimates of the level and timing of capital receipts.	Wiltshire Police's capacity to manage in-year or temporary budget pressures.
The potential range of costs of demand-led services.	The strength of the financial information and reporting arrangements.
Planned efficiency savings/ productivity gains.	Wiltshire Police's end of year procedures in relation to budget under/overspends.
The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments.	The adequacy of Wiltshire Police's insurance arrangements to cover major unforeseen risks.

26. The proposed use of reserves and balances to deliver a sustainable budget will form part of the budget process.

Application of Reserves

27. Use of the General Reserve is limited to the following purposes:
 - ❖ to protect Wiltshire Police from financial risks and
 - ❖ provide a working balance to help cushion the impact of uneven cash flows e.g. Precepts;
 - ❖ planned non-recurrent funding to ensure a balanced budget is set, with the expectation that a plan will be produced to resolve the deficit and build the reserve up to its recommended level.

28. **Earmarked Reserves** should be available to meet or support a range of specific requirements, including:

- ❖ capital or asset purchases
- ❖ major change management initiatives
- ❖ fixed term projects and other one-off spend
- ❖ exceptional operational expenditure
- ❖ 'Spend to save' and 'pump priming' initiatives
- ❖ managing cross-financial year flexibility

Monitoring and reporting Reserves

29. The forecast level and usage of reserves will be formally approved by the PCC, as part of the Financial Strategy, advised by the Chief Financial Officers and Chief Constable.

30. The proposed use of reserves and balances to deliver a sustainable budget must be included as part of the budget process to the PCC.

31. Unusable reserves are managed as part of accounting policies, specified in the Statement of Accounts which is approved by the PCC.

32. The PCC is the owner of all reserves. All reserves will sit on the PCC's Balance Sheet.

Provisions

33. A provision is recognised in the accounts when a liability has been identified that is of uncertain timing or amount which is to be settled by the transfer of economic benefits.

34. Accounting arrangements for provisions are included in IAS 37 – Provisions, Contingent liabilities and Contingent assets. Further guidance is included in IPAS 19 - Provisions, Contingent liabilities and Contingent assets.

35. A provision should be created when there is a present obligation (legal or constructive) as a result of a past event. Or it is probable that a transfer of economic benefits will be required to settle an obligation and a reliable estimate can be made of the amount of the obligation. Unless these conditions are met, no provision shall be recognised.

36. Provisions may be required for some civil and motor claims. There is a need to split the claims between a provision on the balance sheet for the cost of claims received and outstanding; and funds held in the reserve to cover claims incurred but not received or quantified. Costs surrounding claims that have been reported and assessed will be carried as a financial provision whilst incidents where no claim has yet been made, would be covered by the insurance reserve. The level of the provision will be determined annually at year end with assistance from solicitors on the valuation of claims.

Wiltshire Police Reserves

Usable Reserves

Reserve	Justification
HO Heading – General Contingency, held in accordance with sound principles of good financial management	
General Reserve	Funding set aside to cover the major risks involved with running a £100m Policing business. Currently set at 2.5% of the Budget Requirement.
Chief Constables (CC) Operational Reserve	In line with the financial code of practice CC should have a contingency available for operational activities without the need for additional approvals. Set at 1.0% of Budget Requirement
Insurance Reserve	Provides cover for a one-off increase in claims in the knowledge that significant excess levels exist with current insurances. Maintained at £0.400m in line with current claims history
Seized Asset Reserve (Incentivisation)	The budget requires £160,000 of income per year to finance financial investigators undertaking this work. This reserve 'smooths' out variances across years on returns reducing risk. The level of the reserve is to a maximum of 1 yrs budget
Ill Health Reserve	For each Ill Health retirement agreed a payment of approximately £70,000 has to be made to the Home Office. The annual budget allows for 3 per year, this reserve 'smooths' out variances across yrs. The level of the reserve depends on HR data on planned retirements at year end
Contribution to Revenue Budget	Funding set aside to finance short term revenue funding issues. This will alter each year depending on the MTFs position.
2017 Bonus Pay Award	Funding set aside for the part year impact of the 1% bonus awarded in the Sept 17 pay award
Officer Intake Strategy	Finances to allow for short term excess officer numbers or variances in the vacancy factor. This will be reviewed each year depending on funding and recruitment profile.
HO Heading – Projects and Programmes (to be used over the life of the Medium Term Financial Strategy)	
Capital Development Reserve	Funding set aside to assist in the financing of capital to reduce the organisations need to borrow.
Restructuring Reserve	This funds one off costs such as redundancy and minor office changes required to restructure the business to meet reduced funding levels.
Budget Smoothing Reserve	Funds any unplanned shortfalls in savings resulting from timing issues in delivering savings.
Held Property Project	This will fund a 3yr project to consolidate, review and where appropriate dispose of held property.
Estates Transformation Reserve	Work has been requested from property advisors to help maximise returns from estates changes. This pump primes the initiative.

Specials Intake Strategy	This reserve is intended to finance a plan to increase the number of Specials assisting the force to 300-400 with a specific recruitment, retention and training strategy.
Diversity Reserve	Funding set aside to finance projects which will lead to a more diverse workforce and benefits that provides.
Deployability Reserve	A reserve created to reduce the volume of staff unavailable for front line deployability
Regional Projects Reserve	In line with Government guidelines Wiltshire have worked with other Forces on collaboration projects to increase efficiency and effectiveness. This fund finances reviews and start up costs
ICT Project Reserve	To finance efficiency and effectiveness projects (future trfr to Capital Dev Reserve)
Case Quality Management Reserve	Funding set aside to improve and enhance the quality of cases produced for the Criminal Prosecution Services.
GDPR Restructure Reserve	This will finance a restructure of Information Assurance required to implement GDPR
MAPPA Reserve	This receives funds from the partners in the Multi Agency Public Protection arena and is spent in line with Board decisions.
Switch Reserve	This receives funds from partners and is spent on the Integrated Offender Management programme
Local Resilience Forum	This receives funds from the partners in the Local Resilience Forum and is spent in line with Board decisions.

Wiltshire Police Reserves

Usable Reserves

Reserve	Actual March 2018	Forecast March 2019	Forecast March 2020	Forecast March 2021
HO Heading – General Contingency, held in accordance with sound principles of good financial management				
General Reserve	£2.749m	£2.749m	£2.749m	£2.749m
Chief Constables Operational Reserve	£1.100m	£1.100m	£1.100m	£1.100m
Insurance Reserve	£0.400m	£0.400m	£0.400m	£0.400m
Seized Asset Reserve (Incentivisation)	£0.192m	£0.132m	£0.072m	£0.050m
Ill Health Reserve	£0.390m			
Contribution to Revenue Budget	£0.253m			
2017 Bonus Pay Award	£0.210m			
Officer Intake Strategy	£1.000m	£0.250m		
HO Heading – Projects and Programmes (to be used over the life of the Medium Term Financial Strategy)				
Capital Development Reserve	£9.475m	£5.000m		
Restructuring Reserve	£0.285m	£0.185m	£0.085m	
Budget Smoothing Reserve	£0.200m	£0.200m	£0.200m	£0.200m
Held Property Project	£0.136m			
Estates Transformation Reserve	£0.050m	£0.025m		
Specials Intake Strategy	£0.300m			
Diversity Reserve	£0.034m			
Deployability Reserve	£0.100m			
Regional Projects Reserve	£0.294m	£0.100m		
ICT Project Reserve	£0.955m	£0.700m	£0.400m	
Case Quality Management Res.	£0.100m	£0.050m		
GDPR Restructure Reserve	£0.100m			
MAPPA Reserve	£0.042m	£0.032m	£0.022m	
Local Resilience Forum	£0.010m	£0.005m	£0.002m	
Total	£18.375m	£10.928m	£5.030m	£4.499m